LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS
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FISCAL IMPACT STATEMENT

LS 8151
BILL NUMBER: HB 1887

DATE PREPARED: Jan 24, 1999
BILL AMENDED:

SUBJECT: Earned income deduction.

FISCAL ANALYST: Diane Powers
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FUNDS AFFECTED: X **GENERAL**
DEDICATED
FEDERAL

IMPACT: State & Local

STATE IMPACT	FY 1999	FY 2000	FY 2001
State Revenues		**(32,900,000)**	**(78,300,000)**
State Expenditures			
Net Increase (Decrease)		**(32,900,000)**	**(78,300,000)**

Summary of Legislation: This bill replaces the definition of qualifying child with the more expansive Internal Revenue Code definition of dependent for purposes of the earned income deduction. This bill increases the qualifying income level for the deduction from $12,000 to $18,000 and eliminates the phase out of the deduction amount. The bill also makes the deduction permanent.

Effective Date: January 1, 2000.

Explanation of State Expenditures: This bill exempts employers from withholding requirements for an individual who may be eligible for this deduction based criteria outlined in the bill. The Department of Revenue (DOR) will have additional administrative expenses to change tax forms, instructions and computer programs associated with changing this deduction. These expenses will come from their existing budget.

Explanation of State Revenues: This bill expands the earned income deduction to cover all dependents who qualify under the Internal Revenue Code. The current deduction only covers dependents under the age of 18 years old. This bill also expands the qualifying income level from $12,000 to $18,000, eliminates the phase out of the deduction and makes the deduction permanent. This amended earned income tax deduction will allow taxpayers who have adjusted gross income of less than $18,000 and have a qualifying dependent to deduct the entire amount of their earned income. It is estimated that this new earned income tax deduction will reduce revenue by $32.9 M in FY 2000 (due to 5 months of withholdings) and $78.3 M in FY 2001. Individual income tax revenue is deposited in the General Fund.

Explanation of Local Expenditures:

Explanation of Local Revenues: Counties that have adopted the County Adjusted Gross Income Tax (CAGIT), the County Option Income Tax (COIT), and/or the County Economic Development Income Tax (CEDIT), will experience a loss in revenue generated by these taxes. This is because the tax base for each of these taxes is Indiana Adjusted Gross Income which will be reduced by this bill. The loss will be reflected in the certified distribution to the counties. A list of adopting counties for each of the taxes can be found in the *Indiana Handbook of Taxes, Revenues, and Appropriations*, Indiana Legislative Services Agency, Fiscal Year 1998.

State Agencies Affected: Department of Revenue.

Local Agencies Affected: Counties with a local option income tax.

Information Sources: Department of Revenue; Internal Revenue Service.